KASE CAPITAL

Whitney R. Tilson
Managing Partner

phone: 212 277 5606
WTilson@KaseCapital.com

April 3, 2016

Dear Partner:

In this, my 17th annual letter, I seek to frankly assess the fund's performance and share my thoughts on various matters including, most importantly, why I am very confident in our fund's future prospects. Below I disclose and discuss our fund's 10 largest long positions as well as its largest short, Lumber Liquidators.

Performance

Our fund declined 7.3% in 2015 vs. +1.4% for the S&P 500 (with dividends reinvested), as this table shows:

	2015	Since Inception
Kase Fund – net	-7.3%	158.6%
S&P 500	1.4%	128.6%

Past performance is not indicative of future results. Please refer to the disclosure section at the end of this letter. The Kase Fund was launched on 1/1/99.

Following the re-launch of our fund three years ago, we had two solid years (+16.6% in 2013 and +13.7% in 2014), so it was disappointing to give back half of 2014's gains last year.

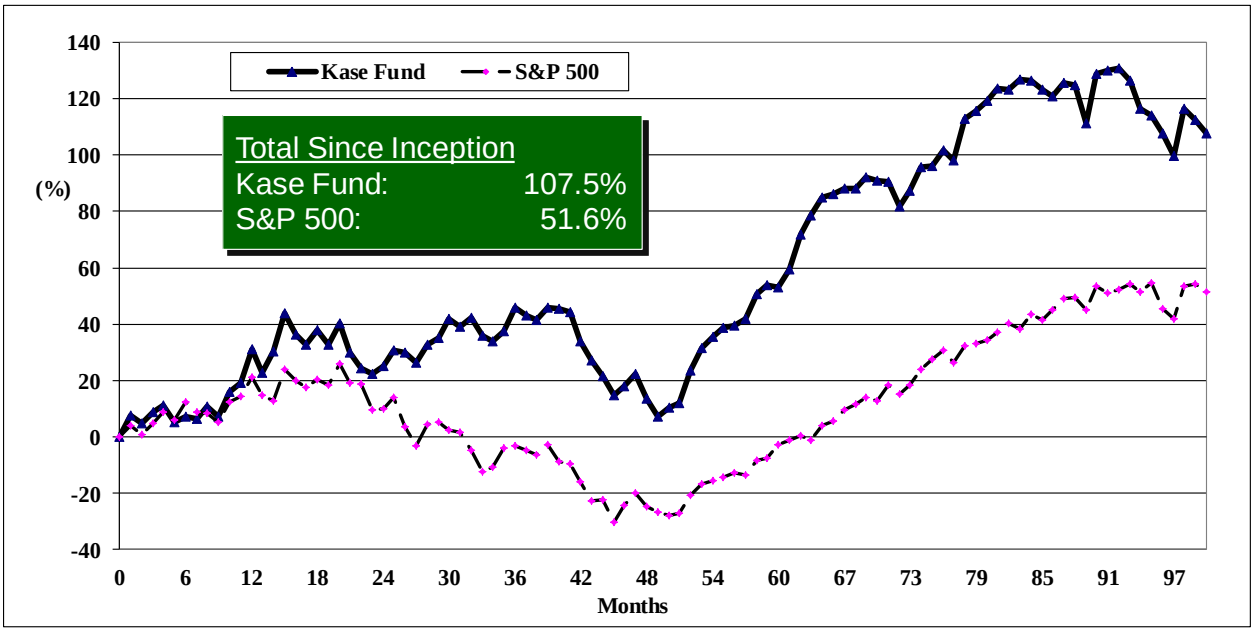
Four stocks killed our performance last year: Canadian Pacific (-33.7%), Platform Specialty Products (-44.7%), Avis (-45.3%) and Micron (-59.6%). I bought them all well, as each roughly doubled (they were four of our five biggest winners in 2014), but I failed to sell and thus we have now round-tripped them.

I've certainly learned a good lesson about the need to sell cyclical stocks when the cycle is at its peak. Today, however, especially with all four down even further this year, I believe that each is at a cyclical trough and poised to significantly outperform.

These losses more than offset the gains from JetBlue (+42.8%) and an epic year on the short side, as four of our major positions collapsed: World Acceptance (-53.3%), Exact Sciences (-66.4%), Lumber Liquidators (-73.8%) and Unilife (-85.1%).

Returns Managing Solo

As I've discussed in previous letters, attempting to manage the fund with a partner was ultimately unsuccessful, so I returned to managing the fund solo (as I did for the first 5+ years) and relaunched it as Kase Capital at the beginning of 2013. This chart shows the combined returns of the fund relative to the S&P 500 during the entire time I've managed it solo:

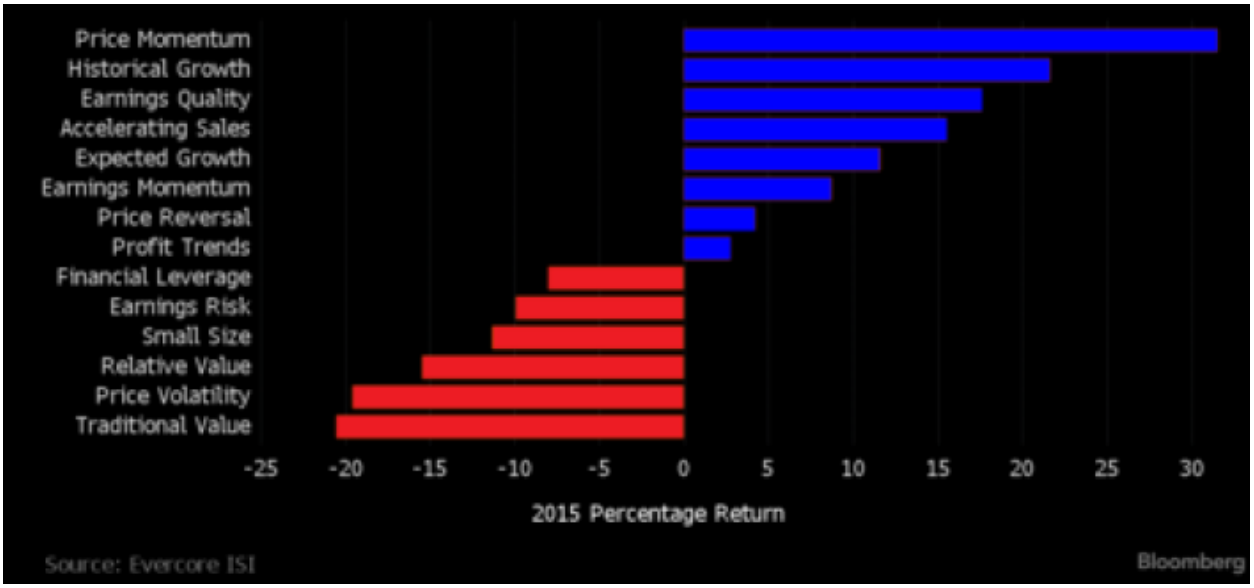


Over the roughly eight years I've managed the fund solo, it's more than doubled the return of the S&P 500 – a record I intend to continue.

The Market Context

Our fund's poor returns in 2015 are due to errors on my part, to be sure, but I also believe that three other factors were at work:

1) As this chart shows, the "traditional value" stock strategy, which I tend to follow fairly closely, was the single worst performing one in 2015, declining by more than 20% (and the trend seems to be continuing this year):



This is consistent with what I've seen among value-oriented funds like mine. While some of them navigated the turmoil well and finished in the black, five of the smartest investors I know, all with stellar long-term track records, each had down ~20% years.

It's no fun when my favorite strategy is so out of favor and I have to report lousy numbers to you, but I am not discouraged. I've been through many such periods before and I think it is increasingly likely that we are entering a period in which traditional value investing can dramatically outperform.

2) A Goldman Sachs index of the 50 U.S. shares most widely held by hedge funds (we own a few of these stocks and others with meaningful ownership by other hedge funds) just had its worst six-month period of underperformance relative to the S&P 500 since the financial crisis of 2008-09, as this chart shows:

Importantly, however, look at what happened immediately after the last period of terrible underperformance: dramatic outperformance.

3) The market has become very narrow. A handful of popular large-cap stocks drove the S&P 500 index in 2015, masking a stealth bear market among all other stocks, which were, collectively, down quite a bit – for instance, the Russell 2000 was down 5.7% and the NYSE Composite Index of more than 2000 stocks fell 6.4%. Markets like this hurt us because I tend to own out of favor stocks, not beloved ones.

Putting Cash to Work in 2016

So far this year, the U.S. (and most of the world's) markets have been characterized by high volatility and, until recently, sharply negative returns, with the S&P falling more than 10% at one point earlier this month. Our fund has not been immune, though as of today's close it's rebounded a bit and is down 4% for the year.

While I wish I could report better numbers, I'm confident that the decline of many of our stocks in recent months will eventually prove to be good news. Allow me to explain:

Imagine you buy a stock at $10, based on the belief that it's worth at least $15 – and then it declines 20% to $8. Typically, this happens for one of two reasons:

1) The company reports unexpected bad news: a weak quarterly earnings report or preannouncement, a senior executive leaves, an accounting scandal, etc. As a shareholder, this is a terrible feeling because, while the stock is down and appears cheaper, one or more parts of your investment thesis have been called into question and you start to worry if this is a value trap. Should you cut your losses and sell, hold, or buy more? There is no consistently right answer: it all depends on the situation, and making the right call here is what separates the best investors from the rest – but it never feels good when things go awry.

2) Alternatively, stocks often decline on no company-specific news: perhaps the market is weak or it's a stock owned by hedge funds that are getting hammered in other parts of their portfolio and are selling indiscriminately to raise cash. In this case, the stock's drop is a gift, as its intrinsic value hasn't changed, yet you can now buy it at a 20% lower price (presuming, of course, that you have excess cash to invest, as we do).

As I review the stocks in our portfolio that have declined, I believe that most fall into the latter category.

Thus, with plenty of dry powder (our fund was more than 30% in cash in early January), over the past six weeks I've been enthusiastically deploying nearly all of our cash into many companies I've owned for years and know deeply, whose stocks reached silly levels that I never thought I'd see.

To be clear, my decision to put our cash to work isn't a market call, as I have no idea where the market will go in the short- or medium-term. I simply think that the stocks I'm buying are too cheap.

The key to successful investing is keeping one's head while others are losing theirs, and having the courage, conviction and cash to buy out-of-favor stocks when they are under intense selling pressure.

This Is Not 2008

But what if the recent market turmoil is the prelude to another global crisis like 2008? To be sure, I wouldn't be buying if I thought the world was going to get very ugly – but I don't. I think things are going to be OK, especially in the U.S., which is where nearly all of our portfolio is concentrated.

While the low price of oil is stressing certain sectors, overall I believe it's *good* for the U.S. since we're a large net energy importer. As for fears about turmoil in China spreading around the world, China may well have some difficult adjustments, but it only accounts for 8% of our exports, and exports account for only 13% of our GDP; thus, exports to China a mere 1% of our GDP (and China is only ~2% of revenues and ~1% of profits of the S&P 500 companies). Lastly,

with our banks well capitalized, leverage low, fraud negligible and minimal off-balance-sheet nonsense, the chances of another Great Financial Crisis here are de minimis.

I think that the market has been having nothing more than a temper tantrum, so I view the turmoil this year as a buying opportunity. I recognize, however, that it's a fool's errand to try to precisely time the bottom, so I've been steadily putting our cash to work, with a bias toward periods of high market turmoil and plunging prices. As I do so, I have caught – and will continue to catch – some falling knives, but I think we'll be rewarded over time.

In summary, after a long stretch of relatively benign market conditions (we've had one of the longest bull markets on record since the bottom in March 2009), we are now experiencing what I view as normal market conditions, in which investing is difficult because – surprise! – stocks sometimes go down, not just up. The result is greater stress on all of us – but I will gladly trade this in exchange for the far greater number of compelling investment opportunities that I'm seeing. In fact, I wouldn't be surprised if 2016 brings the richest opportunity set that I have seen in quite a while. I look forward to capitalizing on these opportunities – while also, of course, managing risk and protecting our capital.

Portfolio Construction, Positioning and Largest Positions

On the long side, I seek to construct a portfolio that is both highly concentrated, yet also diverse in terms of industries, types of value, catalysts, and risk. I break it down into the following categories:

- Blue-chip companies whose stocks are the foundation of the portfolio like Berkshire Hathaway, Air Products, Canadian Pacific, GE and Goldman Sachs. These stocks are quite undervalued, not crazy cheap I believe, but the businesses are of exceptional quality so there's less risk;
- "Platform" companies: Howard Hughes and Platform Specialty Products;
- Companies in consolidating industries: airlines (Spirit, Delta and JetBlue), semiconductors (Micron) and auto rentals (Avis);
- A long-term bet on Korea and, in particular, Korean preferred stocks (Samsung Electronics and Hyundai Motor); and finally
- A handful of special situations, turnarounds or small-cap companies such as Reading International, Tetragon Financial Group, SodaStream, Spark Networks, Fannie Mae and Grupo Prisa.

As you can see from the list of largest positions (below), the fund is weighted toward a small number of solid companies, most of which we've owned for many years.

I believe that keeping portfolio turnover low is critical to long-term success. As such, at the end of 2015, we still held 11 of the 12 largest positions we held at the start of the year (discussed in last year's annual letter). The stocks I did sell during the year – smaller positions in American Airlines, AIG, Hertz, magicJack, Pershing Square Holdings and AIG – all turned out to be good sales.

The fund is currently 96% long (20 positions) and 15% short (10 positions). Here are the top 10 long positions (all those 4% or larger), which account for two-thirds of the fund's long exposure, ranked in descending order of size:

1. Berkshire Hathaway
2. Howard Hughes
3. Canadian Pacific
4. Spirit Airlines
5. General Electric
6. Platform Specialty Products
7. Air Products & Chemicals
8. Goldman Sachs
9. Reading International
10. Micron Technology

I discuss our largest position (~11%), Berkshire Hathaway, here and the rest in Appendix A.

Berkshire Hathaway

I've written many times about Berkshire in the past, so I will hit the highlights here and refer you to my latest slide presentation for an extensive discussion.

Buffett released his 2015 annual letter at the end of February and, based on the information in it, I have updated my estimate of Berkshire's intrinsic value: I now peg it at $283,000/A share, based on $159,794 of investments per share plus 10x $12,304 the pre-tax earnings of the operating businesses. With the stock at $215,740 today, it trades 24% below intrinsic value, which is one of the largest discounts in the last two decades.

The upside/downside ratio for the stock is now very favorable as it has 43% upside to hit my estimate of intrinsic value one year from now ($308,000), and only 14% downside to 1.2x book value ($186,601), which I view as a solid floor on the stock since Berkshire has a ton of excess cash and Buffett has said many times that he would be an eager buyer of his stock at or below this level.

In summary, I think today's price is compelling for an extraordinary company that is very conservatively managed and growing at a decent clip, and whose stock offers the wonderful combination of substantial upside and limited downside – all of which is why I doubled this position to ~10% when the stock dipped below $200,000.

Super-Sizing Berkshire at Opportune Times

I have owned Berkshire for more than 20 years (it's the only stock that's been in the fund for its entire existence) and, as you can see from the chart below, the stock has roughly tripled since the inception of the fund just over 17 years ago. This isn't bad (4x the 50% return of the S&P 500), but a 6.7% compounded annual return (with no dividend) isn't exactly stellar either.

Our returns, however, have been significantly higher because I've trimmed and added to the position many times (it's ranged from a 3% to a 30% position), based on the stock price relative

to my estimate of intrinsic value. The eight red circles on the chart show times when I've super-sized our position (10%+):

As you can see, due to a combination of luck and (I'd like to think) knowledge, courage and conviction, I've nailed every major buying opportunity in the past 17 years. Allow me to highlight each of them:

1. On March 15, 2000, the day the Nasdaq peaked at the height of the Internet Bubble – and the day Berkshire (and countless other out-of-favor value stocks) bottomed – I made Berkshire 30% of my fund (which was new and tiny at that time).
2. In early 2003, as the Iraq war loomed, Berkshire sold off along with all stocks.
3. While Berkshire's intrinsic value had marched steadily upward from the beginning of 2004, its stock didn't keep up (in fact, it was down a bit), which created a great buying opportunity in early- to mid-2006.
4. At the depths of the Great Recession in early 2009, Berkshire's stock was trading at investments per share, meaning you got all of the operating businesses for free.
5. We correctly anticipated that Berkshire would be added to the S&P 500, loaded up on the stock, and were soon rewarded in January 2010.
6. Berkshire's stock sold off by nearly 20% from February through August 2011 due to fears of contagion of the European sovereign debt crisis, as well as S&P downgrading U.S. debt. Making the stock even more of a great buy, on September 26, 2011, Berkshire announced the first formal share repurchase program in Berkshire's history at 1.1x book value, noting that the stock was worth "considerably more" than this. The stock at that time was trading at almost exactly 1.1x book so there was little downside thanks to Buffett's repurchase offer, yet tremendous upside.
7. After Glenn and I separated, I briefly took the portfolio to cash. As I started to rebuild it, Berkshire was the first stock I repurchased – and I made it our largest position, as it was ~$130,000/share vs. my estimate of intrinsic value of ~$180,000.
8. Last but not least, as the stock has sold off by 10% in the last 15 months, I've recently added materially to our Berkshire position at prices below $200,000, making it our largest at 10% of capital. As you can see in my latest Berkshire slide presentation, I peg

intrinsic value today at ~$283,000, so I believe that it's currently trading at a 27% discount. If history is any guide, we will soon be rewarded.

So far, I've batted 7 for 7, and I'm confident that when we look back in a year or two, it will be 8 for 8.

Largest Short: Lumber Liquidators

In a 48-slide presentation at an investment conference on March 8th, I revealed why I'm once again short the stock of Lumber Liquidators. While it may seem odd to reestablish this position at a lower (i.e., less attractive) price than when I covered, I changed my mind because I have new information that leads me to believe that the odds of very bad outcomes for Lumber Liquidators and its stock have risen materially based on new information in six areas:

1) Widespread media coverage of the CDC's error and increased cancer risk appears to be having a severe impact on the business
2) The cancer risk is likely significantly greater than even the CDC's revised estimate, which could result in further damaging publicity and increased liabilities
3) A "Prop 65" trial has just begun that LL is likely to lose, resulting in further adverse publicity
4) Likelihood of even larger legal and regulatory liabilities
5) Operating performance of the business in Q4 was much worse than I expected - and I think meaningful improvement is unlikely for quite some time (if ever)
6) Lack of confidence in company leadership

Here is the summary from the article I published on March 9th (click here to read it):

- After being very publicly short Lumber Liquidators' stock for 26 months, during which it fell by nearly 90%, I exited the position in December. At the time, I had no expectation of shorting the stock again, yet in the past week I reestablished a meaningful (~4%) short position in the stock.
- Yesterday, I gave a 48-slide presentation explaining the reasons why. I believe the odds of very bad outcomes for Lumber Liquidators and its stock have risen materially based on new information in six areas.
- Most importantly, my best source tells me that the recent cancer scare associated with the toxic, formaldehyde-laden Chinese-made laminate flooring that Lumber Liquidators sold for years is having a devastating impact on the business.
- The company was already in a precarious situation, so I question whether it can withstand this new blow. I now believe that there is at least a 50% chance that Lumber Liquidators eventually goes bankrupt.
- The most likely scenario for the stock, I believe, is that it drops to ~$8 after Q1 earnings late next month, when I expect the company to acknowledge that its business has weakened further; then, I think the stock will continue to fall over the course of the year as the business remains crippled, and approaches zero within a year.
- If you have information that either confirms or is contrary to mine, I'd love to hear from you at WTilson@kasecapital.com.

If you're interested in the details, here is further information:

- The slides I presented on March 8th are here (followed by the three previous public presentations I made on this company in 2013, 2014 and 2015)
- A video of my 20-minute presentation is here
- Afterward, I did a 10-minute interview with CNBC, which is posted here; a transcript is here
- All 20 articles (including this one) that I've published on Lumber Liquidators are here

I also wrote two articles in 2015 about two other short positions, Exact Sciences (Why Exact Sciences Is A Great Short At $10, 10/7/15), which we continue to hold, and Unilife (How Wall Street Enables Stock Promotions: A Case Study of Jefferies and Unilife, 5/20/15), which I've covered.

Conclusion

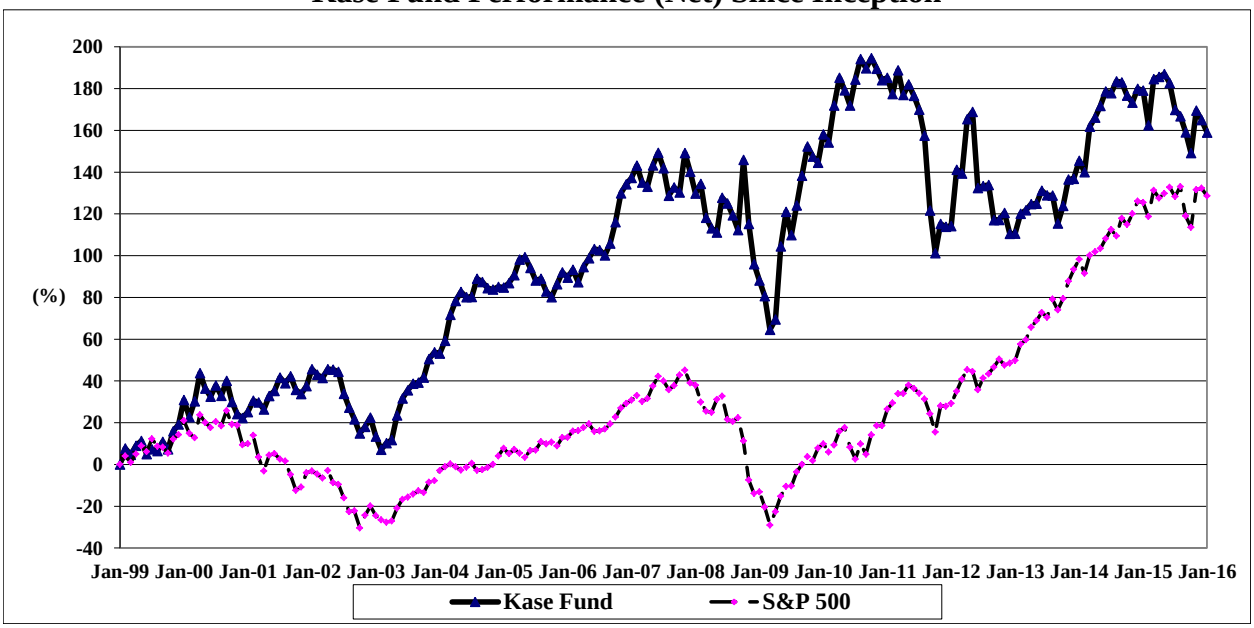
Thanks in large part to the recent turmoil in the markets, I believe that our portfolio is very attractively priced right now and poised to generate healthy, market-beating returns going forward.

I greatly appreciate your confidence, and remain steadfast in my commitment to earn it. Please feel free to contact me anytime with thoughts or questions.

Sincerely yours,

Whitney Tilson

Kase Fund Performance (Net) Since Inception



Past performance is not indicative of future results.

Kase Fund Monthly Performance (Net) Since Inception

	1999		2000		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012		2013		2014		2015	
	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500	Kase Fund	S&P 500
January	**7.8**	4.1	**-6.3**	-5.0	**4.4**	3.6	**-1.8**	-1.5	**-5.5**	-2.6	**4.7**	1.8	**1.1**	-2.4	**1.9**	2.7	**2.4**	1.7	**1.9**	-5.9	**-3.6**	-8.4	**-1.6**	-3.6	**-2.8**	2.4	**12.6**	4.5	**4.5**	5.2	**-2.2**	-3.5	**-6.0**	-3.0
February	**-2.9**	-3.1	**6.2**	-1.9	**-0.6**	-9.2	**-1.1**	-2.0	**2.9**	-1.6	**7.0**	1.5	**2.1**	2.0	**-3.1**	0.2	**-3.3**	-2.1	**-6.9**	-3.3	**-8.9**	-10.8	**7.3**	3.1	**4.1**	3.4	**-0.8**	4.3	**0.8**	1.4	**9.1**	4.6	**8.6**	5.7
March	**4.1**	4.0	**10.3**	9.8	**-2.6**	-6.4	**3.0**	3.7	**1.4**	0.9	**3.9**	-1.5	**3.9**	-1.7	**3.9**	1.3	**-0.8**	1.1	**-2.3**	-0.5	**2.9**	9.0	**4.6**	6.0	**-4.1**	0.0	**10.9**	3.3	**1.3**	3.8	**1.7**	0.8	**0.5**	-1.6
April	**2.1**	3.7	**-5.1**	-3.0	**5.1**	7.8	**-0.2**	-6.0	**10.5**	8.2	**2.4**	-1.5	**0.6**	-1.9	**2.2**	1.4	**4.4**	4.6	**-0.9**	4.9	**20.1**	9.6	**-2.1**	1.6	**1.9**	3.0	**1.3**	-0.6	**0.1**	1.9	**2.1**	0.7	**0.5**	1.0
May	**-5.7**	-2.5	**-2.8**	-2.0	**1.8**	0.6	**0.0**	-0.8	**6.6**	5.3	**-1.4**	1.4	**-2.6**	3.2	**1.8**	-2.9	**2.5**	3.3	**7.9**	1.2	**8.1**	5.5	**-2.6**	-8.0	**-1.9**	-1.1	**-13.6**	-6.0	**2.8**	2.3	**2.6**	2.3	**-1.9**	1.3
June	**2.2**	5.8	**4.1**	2.4	**4.6**	-2.4	**-7.3**	-7.1	**2.9**	1.3	**0.1**	1.9	**-3.1**	0.1	**-0.2**	0.2	**-3.0**	-1.5	**-1.2**	-8.4	**-5.0**	0.2	**4.5**	-5.2	**-2.4**	-1.7	**0.5**	4.1	**-1.0**	-1.3	**-0.3**	2.1	**-4.5**	-1.9
July	**-0.7**	-3.2	**-3.6**	-1.6	**-1.1**	-1.0	**-5.0**	-7.9	**2.3**	1.7	**4.6**	-3.4	**0.5**	3.7	**-0.9**	0.7	**-5.4**	-3.0	**-2.5**	-0.9	**6.8**	7.6	**3.5**	7.0	**-4.6**	-2.0	**0.2**	1.4	**-0.1**	5.1	**2.0**	-1.4	**-1.1**	2.1
August	**4.1**	-0.4	**5.4**	6.1	**2.5**	-6.3	**-4.3**	0.5	**0.4**	1.9	**-0.9**	0.4	**-3.2**	-1.0	**2.9**	2.3	**1.7**	1.5	**-3.3**	1.3	**6.3**	3.6	**-1.5**	-4.5	**-13.9**	-5.4	**-7.2**	2.3	**-5.8**	-2.9	**-0.2**	4.0	**-2.9**	-6.0
September	**-3.3**	-2.7	**-7.2**	-5.3	**-6.1**	-8.1	**-5.4**	-10.9	**1.7**	-1.0	**-1.6**	1.1	**-1.5**	0.8	**5.0**	2.6	**-1.1**	3.6	**15.9**	-9.1	**5.9**	3.7	**1.7**	8.9	**-9.3**	-7.0	**0.0**	2.6	**3.9**	3.1	**-1.7**	-1.4	**-3.8**	-2.5
October	**8.1**	6.4	**-4.5**	-0.3	**-0.8**	1.9	**2.8**	8.8	**6.2**	5.6	**-0.4**	1.5	**3.5**	-1.6	**6.3**	3.5	**8.2**	1.7	**-12.5**	-16.8	**-1.9**	-1.8	**-1.7**	3.8	**7.0**	10.9	**1.6**	-1.9	**5.6**	4.6	**-1.4**	2.5	**8.2**	8.4
November	**2.8**	2.0	**-1.5**	-7.9	**2.3**	7.6	**4.1**	5.8	**2.2**	0.8	**0.8**	4.0	**3.1**	3.7	**1.9**	1.7	**-3.6**	-4.2	**-8.9**	-7.1	**-1.2**	6.0	**-1.9**	0.0	**-0.6**	-0.2	**-4.5**	0.6	**0.2**	3.0	**2.6**	2.7	**-1.7**	0.3
December	**9.8**	5.9	**2.3**	0.5	**6.5**	0.9	**-7.4**	-5.8	**-0.4**	5.3	**-0.2**	3.4	**-1.3**	0.0	**1.4**	1.4	**-4.3**	-0.7	**-4.0**	1.1	**5.5**	1.9	**0.5**	6.7	**0.1**	1.0	**0.1**	0.9	**3.6**	2.5	**-0.4**	0.3	**-2.4**	-1.6
YTD TOTAL	**31.0**	**21.0**	**-4.5**	**-9.1**	**16.5**	**-11.9**	**-22.2**	**-22.1**	**35.1**	**28.6**	**20.6**	**10.9**	**2.6**	**4.9**	**25.2**	**15.8**	**-3.2**	**5.5**	**-18.1**	**-37.0**	**37.1**	**26.5**	**10.5**	**15.1**	**-24.9**	**2.1**	**-1.7**	**16.0**	**16.6**	**32.4**	**13.7**	**13.7**	**-7.3**	**1.4**

Past performance is not indicative of future results.

Note: Returns in 2001, 2003, 2009, 2013 and 2014 reflect the benefit of the high-water mark, assuming an investor at inception.

Appendix A: Top 10 Long Positions

Note: The stocks are listed in descending order of size as of 4/3/16.

1) Berkshire Hathaway
(Discussed in the body of the letter.)

2) The Howard Hughes Corp.
When General Growth Properties, our most successful investment ever, emerged from bankruptcy in early November 2010, it did so as two companies: General Growth Properties (GGP), which had all of the best malls, and Howard Hughes (HHC), a collection of 34 master planned communities, operating properties, and development opportunities in 18 states. Soon thereafter I sold GGP, but held onto HHC (thank goodness, as the stock has tripled since then) in the belief that while most of its properties are generating few if any cash flows and are thus very hard to value, the company has undervalued, high-quality assets in premier locations and that there are many value-creating opportunities that can be tapped.

In July and August 2012 I visited four of Howard Hughes's properties that account for two-thirds of the company's book value: Summerlin (Las Vegas), The Woodlands (Houston), Ward Centers (Honolulu), and South Street Seaport (NYC). In all cases, I was extremely impressed with the properties, the managers running them, and the development plans underway. I also got to know HHC's CEO, David Weinreb, who's a brilliant entrepreneur with a long, highly successful track record in real estate development.

At that time, when the stock was in the $65 range, I estimated (see this slide presentation) that HHC's intrinsic value was ~$125/share and loaded up on the stock. It was a great call, as the stock steadily rose to above $150 in mid-2014, where it stayed for most of the subsequent year. Since then, however, the stock has sold off hard, falling to a low around $80 in mid-February before rallying today's level of $103.56.

The primary reason for the stock's decline is the collapse in the price of oil, which hits Houston hard, which in turn has caused investors to fear the impact on two of HHC's major assets, master planned communities The Woodlands and Bridgeland, which are located just outside of the city. This concern has merit: as HHC noted in its Q4 earnings release a couple of weeks ago, "Our Houston MPCs are experiencing lower land sale volumes than in prior years due to the impact that the severe decline in oil prices has had on the Houston economy…land sales decreased (44.4%), or $(60.3) million in our Houston MPCs [in Q4]."

That said, I believe the stock's selloff is hugely overdone for a number of reasons:

- The Houston economy is no longer as dependent on oil as it once was, so its economy is holding up reasonably well so far;
- The Woodlands and Bridgeland are located in Houston's thriving suburbs and cater to a higher-income demographic, so they should do better than Houston as a whole;
- HHC carefully controls all development and sales in its MPCs, so there's low risk of overbuilding and distressed sales;
- The Houston MPCs account for only ~25% of HHC's total value, so the stock is cheap even if you value them at zero;

- The rest of HHC's portfolio is doing very well thanks to the company's superb execution. Development continues apace at Ward Center in Honolulu, Downtown Summerlin in Las Vegas is booming, the new Pier 17 at South Street Seaport is opening in just over a year, and the company just sold one asset there for $390 million.

HHC is very difficult to value with precision, so I hesitate to give a precise number, but I'm highly confident that it's worth at least $150 and probably more than $200 – and rising at a solid clip – so this is a stock I hope to own for many more years.

For more on this company and its valuation, see these two well-done slide presentations by two bloggers, from February 2015 and February 2016.

3) Canadian Pacific

CP was a chronically underperforming railroad, plagued by an ineffective CEO and a complacent board, when Pershing Square took a large stake in the company in late 2011. After trying unsuccessfully to persuade the board to replace the CEO, Pershing Square waged a successful proxy battle that resulted in a mostly new board and the hiring of Hunter Harrison as CEO (for more information, see Pershing Square's excellent slide presentation here). Harrison is a legend in the industry for the remarkable turnarounds he led at Illinois Central and Canadian National.

I invested after attending the company's analyst/investor day in December 2012, during which I met Harrison and saw the remarkable strides the company had already made in less than six months of his leadership. While the stock had already doubled over the previous 14 months to ~$100, I thought the story (and stock) still had plenty of room to run.

The story initially played out exactly as I'd anticipated: the company's revenues rose at a healthy clip and its operating ratio (a measure of costs) plunged, resulting in soaring earnings – and the stock price followed suit, peaking over $200 in late 2014. I sold a fair amount of our position in the high $100s and low $200s, banking substantial profits, but unfortunately didn't sell it all.

In 2015, all of the railroad stocks got clobbered due primarily to sharp reductions in coal and oil shipments and investor fears about a slowing economy. CP's business held up relatively well, but revenue growth was a tepid 1.4% for the year and actually fell 4.3% in Q4. However, continued improvement in the operating ratio, which fell from 64.7% to 61.0% (now second-best among all of its North American peers), and the repurchase of nearly 8% of the shares outstanding led to adjusted diluted EPS rising 19%. Nevertheless, the stock tumbled 33.7% during the year to close at $127.68 – and then amidst the turmoil to start 2016, plunged to under $100 in late January.

I took advantage and nearly doubled our position at an average price of $103.65 in mid-January, which has paid off nicely so far as the stock has rallied above $130.

While the stock, having rallied more than 30% from its January lows, is no longer ridiculously cheap (it's currently trading at ~10x EBITDA and ~15x earnings based on 2016 estimates), I still believe it's very attractive in light of the quality of the business and opportunities for continued growth under Harrison's leadership. Despite a number of headwinds, the company has given guidance for 2016 of further reducing its operating ratio to "below 59%" (with a long-term target in the mid-50s%) as well as "double-digit EPS growth."

4) Spirit Airlines

Spirit has 79 aircraft operating more than 385 daily flights to 56 destinations in the U.S., Latin America and the Caribbean. It is an ultra-low-cost carrier (ULCC), which is not to be confused with low-cost carriers like Southwest, JetBlue and Virgin America. ULCCs include Allegiant and Frontier in the U.S. and Ryanair in Europe.

Spirit has been growing like a weed, tripling its revenue and more than quadrupling its operating income since the 2009. More importantly, Spirit has an enormous growth runway in front of it. It serves fewer than 200 markets currently, but believes that more than 500 markets meet its threshold for growth. I don't doubt this and think that Spirit will continue to grow at a rapid clip for at least another decade, just as Ryanair has done in Europe over the past decade. If I'm right, then I expect Spirit's stock will perform along the same lines as Ryanair's.

My investment thesis can be summarized in one sentence: there are very few companies I'm aware of that are growing revenues at a double-digit rate, with ~24% operating margins, ~28% returns on equity, with net cash positions, whose stocks are trading at a P/E of less than 11x (it was less than 9x when I bought the stock last fall).

Shortly after establishing this position, I gave a 74-slide presentation (posted here) at the Robin Hood Investors Conference in mid-November, laying out:

- The performance of my stock picks at the last two Robin Hood conferences (I had the top short ideas two years ago (Lumber Liquidators and Interoil; I didn't pitch a long) and both the top long and short ideas last year (JetBlue and Exact Sciences);
- The long case for Spirit; and
- The short case for Wayfair.

Regarding Spirit:

- I updated my slides on Spirit and posted the latest version here.
- I discussed Spirit on Bloomberg TV (click here).
- I published three articles about the company. Here's a summary of the first, *Spirit Airlines Is Poised To Be The Next Ryanair*:
  - The selloff in Spirit Airlines' stock, down 51% this year, is hugely overdone.
  - The company has amazing economic characteristics and the long growth runway, yet the stock trades at less than 9x earnings.
  - Over the next decade, I believe that Spirit – both the company and the stock – will do what Ryanair has done over the past decade in Europe.
- Here's a summary of the second, *An Analysis Of The Price War Between American And Spirit Airlines*:
  - American Airlines rolled out an aggressive price-matching strategy in June that has impacted Spirit's pricing and revenues.
  - This is the major factor that has caused Spirit's stock to be cut in half this year.
  - With 62% higher costs, I question how long American can continue this strategy.
  - I suspect it is more likely to be a warning to Spirit to pursue growth in markets not served by American.
  - If so, it makes me even more bullish on Spirit's stock.

- And here's a summary of the third, *My Experience Flying Spirit Airlines This Week*:
  - Having recently bought the stock, I wanted to experience Spirit for myself.
  - Though Spirit has a much higher complaint rate than other airlines, I had a great experience and didn't observe any customer service problems on either flight.
  - The customers Spirit serves, how it's handling areas of customer dissatisfaction and how it generates extra revenues and keeps costs low makes me more bullish on the future of the company.
  - The stock which, even though it's up 20% since my first article three weeks ago, remains exceptionally cheap at ~10x earnings.

The investment so far is playing out beautifully. The price war is easing, the market has reacted favorably to the new CEO, and the stock has risen smartly from the mid-$30s (our average cost is $36.80) to today's level of $47.00. I think it has much more room to run.

5) General Electric

I don't normally find investment opportunities among well known, very large companies (GE's market cap is nearly $300 billion) whose stocks are followed by more than a dozen analysts, but GE is in the later stages of an enormous transformation that, I believe, has led the stock to be undervalued in the interim.

The company has been selling off most of its GE Capital business, which is going well: it signed $157 billion of dispositions in 2015, with $104 billion closed, ahead of plan. When this process is complete in the near future, GE will be a pure play leading industrial/infrastructure/technology company with extremely attractive characteristics:

- #1 market share in its largest business lines: gas turbines, aircraft engines and U.S. medical diagnostic imaging
- Robust competitive advantages rooted in significant barriers to entry among complex, highly differentiated products
- Attractive long-term growth prospects
- Majority of profits from steady, growing recurring services revenue

The investment so far is playing out as expected and the stock has risen from the mid-$20s (our average cost is $26.73) to today's level of $31.93.

For 2016, management has guided to $1.50 in operating EPS and $26 billion of cash returned to investors, $8 billion via a healthy ~3% dividend and the balance through share repurchases. I believe earnings can reach at least $2.20/share by 2018 if the company continues to expand margins and buys back stock at a healthy rate, both of which I think are likely.

A business of this quality I think will trade at 18-22x earnings, which would result in a stock price of $40-$48 in roughly two years, which would be a very satisfactory return from here.

For more on GE, its transformation, and its valuation, see this slide presentation from last October by Trian Partners, a well-respected activist investor that is now one of GE's largest shareholders.

6) Platform Specialty Products
PAH is a platform of "asset-light, high-touch" specialty chemicals businesses with a superb new CEO, Rakesh Sachdev (formerly the CEO of Sigma Aldrich), and a proven deal-doing chairman, Martin Franklin, of Jarden (JAH) fame.

The company came into being in late 2013 when a SPAC headed by Franklin paid $1.8 billion to acquire MacDermid, a high-quality specialty chemicals business. Since then, PAH has acquired five additional businesses, Chemtura AgroSciences, Agriphar, Arysta, OM Group and Alent, and is now positioned as a leading global crop solutions business that offers a full product portfolio and diversity across crop varieties and geographies. The objective is to repeat what Franklin did with Jarden (resulting in investors making more than 30x their money) by being smart and strategic in acquiring and integrating other companies in the specialty chemicals industry.

I first purchased the stock ~$14 in late 2013 and, initially, everything went according to plan. Platform made a number of large acquisitions and in less than six months the stock doubled and remained in the mid- to high-$20s through May 2015…and then the wheels came off the bus, causing the stock to get obliterated. It hit a low of $5.25 in early February before rebounding to today's level of $8.83.

The stock has been in the crosshairs of the weakest sectors of the market, namely:

- Companies with exposure to emerging markets (especially China and Brazil), commodities, and/or the agricultural sector;
- Companies with a lot of debt;
- Serial acquirers that rely on their own high stock price and/or cheap debt to make acquisitions; and
- Stocks widely owned by hedge funds.

In light of this, it's not surprising that Platform's stock has performed so poorly.

However, the company hasn't performed nearly as poorly as the stock. It has indeed reduced guidance (due almost entirely to factors beyond its control), but the high-margin, low cap ex businesses it owns continue to generate robust free cash flow, and Sachdev, Franklin and their team are rapidly cutting costs and improving operations. The company is certainly being affected by weakness in some of its markets and there will be no more acquisitions for a while in light of the high debt level and low share price, but that's okay, as there's plenty to digest.

Importantly, I don't think the company will need to issue any debt or equity, either of which would have to be done on very poor terms in this environment and thus would likely hit the stock. Rather, I think it will be able to get by with its bank line (though debt levels will be uncomfortably high until the company can use its substantial free cash flow to pay it down). I think the stock's 68% jump in the past two months is due in part to the market recognizing that Platform isn't going to be forced to do a distressed financing.

Franklin made investors in Jarden more than 30x their money by not only being a savvy acquirer, but also a great operating manager (and hiring others). Platform is now entering this latter phase

and I think it's a good bet that the results over the next 2-3 years will be strong, allowing the company to pay down a meaningful amount of debt. If I'm right, then I think the stock is a 2-3 bagger from today's depressed levels in the next couple of years.

7) Air Products and Chemicals

APD is one of four major global players in the industrial gas industry, which is an extremely attractive business. Typically, APD (or one of its peers) builds a plant next to a customer's facility (perhaps a steel mill), with a long-term supply contract for roughly 65% of the plant's output that allows APD to earn a decent return on the major investment required to build the plant. Where things really get attractive for APD is the ability to sell the other 35% of the plant's output at very high returns.

APD and its peers benefit from three things: a) customer dependence on the product; b) technological advancements that create new uses for industrial gasses; and c) rapid growth and industrialization in places like China, India and Brazil.

APD, however, has been poorly managed for a long time, which can been seen in this table, which compares it (in both 2014 and 2015) to the leading company in the industry, Praxair:

	Gross Margin	Net Margin	Return on Assets	Return on Equity
APD ('14)	27.3%	9.8%	6.0%	13.2%
APD ('15)	30.7%	13.6%	7.1%	17.7%
Praxair ('15)	44.7%	14.4%	8.1%	28.7%

One can see APD's rapid improvement in only one year, thanks mostly to the leadership of the new CEO, Seifi Ghasemi, who started in June 2014. He and his long-term track record are incredibly impressive, and I see no reason why APD's performance can't improve to Praxair's level over time. If this happens, the stock price should follow.

8) Goldman Sachs

I've gotten to know Goldman well over nearly two decades, both via many friends at the firm as well as doing business with it (it's been Kase Capital's prime broker for more than a dozen years). I am consistently impressed with the caliber of the people at Goldman, as well as how it's managed. While the firm has regularly been a whipping boy for politicians, regulators and the media, my view is that the firm has been (and is) smarter, more risk averse, and better managed than its peers (granted, that's a low bar). In short, it's the premier investment bank in the world.

This is backed up by the firm's performance in 2015 (from the Q4 '15 earnings release):

- Goldman Sachs ranked first in worldwide announced and completed mergers and acquisitions for the year. During the year, the firm advised on completed transactions valued at more than $1 trillion. The firm also ranked first in worldwide equity and equity-related offerings and common stock offerings for the year.
- Investment Banking produced net revenues of $7.03 billion, its second highest annual performance, as net revenues in Financial Advisory were the highest since 2007.
- Investment Management generated record net revenues of $6.21 billion, as assets under supervision increased 6% from a year ago to a record $1.25 trillion, with strong net

inflows in long-term assets under supervision of $71 billion during 2015.

Goldman's stock, however, hardly reflects its positioning and performance. At $159.82 today, it trades at a *discount* to its 2015 year-end tangible book value of $161.64/share, which rose 5% during the year. It also trades at slightly less than 10x 2016 earnings estimates, despite the fact the regulatory and other headwinds have depressed returns on equity to a mere 7.4% in 2015.

Prior to the financial crisis, Goldman's stock traded between 2-4x tangible book. It will likely never trade at those multiples again, as the industry has been forced by much-needed strong regulatory action to de-lever and de-risk. That said, I find it hard to believe that the world's premier investment banking franchise is only worth 1x tangible book (i.e., its liquidation value).

Rather, I think it's likely that Goldman will over time be able to raise its return on equity to double-digit levels above its cost of capital, which will drive both increased earnings and book value, as well as a higher multiple on both. I think over time Goldman's stock will migrate to trade at 1.2-1.5x tangible book and 12-15x earnings (i.e., a 20-50% premium to today's levels).

9) Reading International

RDI is a small ($282M market cap), underfollowed (no analyst coverage) family-controlled business that owns and operates cinemas in the U.S. (#11 player), Australia (#4) and New Zealand (#3), from which the stable and healthy cash flow has been invested in a collection of real estate assets in these countries.

Simply putting a conservative market multiple on the cash flow generated by the cinema business gets one to nearly today's share price of $12.10, so the real question is: what's the real estate worth? My answer: a lot – but it's hard to know exactly how much. The two gems are both in New York City:

1) Cinemas 123, located on 3rd Avenue between 59th and 60th streets. RDI owns a 75% interest in a 7,907 sq. ft. parcel that currently hosts a three-theater cinema. The property is located in one of the most valuable areas of Manhattan, across from Bloomingdale's, and I believe it will soon be developed into a mixed-use retail and residential asset. I believe that today it's easily worth $75 million.

2) 44 Union Square, located on the northeast corner of Union Square. RDI owns and is in the process of developing this unique property, which will have 65,000 leasable square feet and is expected to generate $7-8 million in rent annually. Here's a link to the company's marketing web site for the property. I believe this is also worth more than $100 million.

There are a number of other valuable real estate assets such as Courtenay Central, a development in Wellington, New Zealand, that will be completed in 2017 and will generate in excess of $3 million incremental cash flow per year.

The stock is trading at a substantial discount to its intrinsic value (which I estimate is in the low- to mid-$20s) because, soon after the death of the patriarch of the controlling family in 2014, thermonuclear war broke out among his three children. The patriarch, Jim Cotter Sr., made his son, Jim Cotter Jr., his successor as CEO, but his two daughters, Margaret and Ellen, engineered

a board coup that ousted their brother and installed Ellen as the interim CEO. After a sham of search for a new CEO, the board recently made Ellen the permanent CEO.

I was so concerned about the behavior of the three siblings that I joined another shareholder and we filed an "intervention suit" last August (and an amended complaint on Feb. 3rd) with the goal of gathering information and protecting our (and other shareholders') interests.

I'm limited in what I can disclose because the litigation is ongoing, but, in summary, we have gathered valuable information and insights and I'm cautiously optimistic that we can meaningfully improve corporate governance and help unlock significant shareholder value.

I believe there is minimal downside at the current price and there are many catalysts that could drive the stock considerably higher.

10) Micron Technology

Micron Technology manufactures semiconductors, primarily dynamic random access memory (DRAM) chips (54% of revenues last quarter) and NAND flash memory products (most of the remainder), which are used everywhere from smartphones to computers to automobiles to refrigerators to submarines.

The DRAM industry has been abysmal for decades but it has now consolidated to the point that three companies – Micron, Samsung, and SK Hynix – now control over 90% of the business, and they are all competing rationally, restraining capacity expansion and exercising price discipline. Similar dynamics are at work in the NAND industry as well. In addition, the demand for both DRAM and NAND is increasing rapidly thanks to the growth in storage, cloud computing, smartphones, tablets, video game consoles and the like. The end result of these two factors – constrained supply and robust demand – should be greatly improved pricing and enormous long-term tailwinds for the three remaining players in this industry.

Indeed, these dynamics were at work from 2012-14, a period in which the stock rose from ~$6 to above $36. I first bought the stock under $20 in late 2013 and thus caught the tail end of this big run-up. Alas, I failed to sell and now the stock has tumbled back to $11.03.

When something like this happens, every bone in one's body is screaming "SELL!" to remove the daily reminder of the recent pain and ensure that there won't be any more. But it's critical to instead step back and unemotionally analyze the situation. A little over two years ago, I thought the stock was a wonderful opportunity at nearly double today's price, so is it an even better buy now or has something changed?

My conclusion is that Micron's current troubles are due to industry-wide demand weakness (mainly in PCs), plus the company falling behind its competitors in the next generation of chips – both of which, I believe, are short-term (less than one year) problems, not permanent ones.

But in a world in which most investors are focused on near-term performance, and Micron has guided to at least one more lousy quarter, nobody wants to own this stock right now because it's "dead money" (it's also much easier for a portfolio manager to dump the stock before the end of the quarter – called "window dressing" – than have to explain owning such a dog to one's

investors). But for an investor like me with a multi-year time horizon, I don't care about these short-term factors as long as my investment thesis is intact.

It rests on two key pillars: 1) continued strong (20%+) underlying growth in demand; and 2) rational industry behavior (i.e., restrained capacity growth), the combination of which should lead to solid pricing and healthy profits over time. Those last two words – "over time" – are important because, while the economic characteristics of the industry have improved markedly, it remains somewhat cyclical (as we're seeing now).

In summary, the current weakness in demand and pricing (and the stock price) isn't unexpected and I continue to believe that both pillars of my investment thesis are intact: long-term demand for DRAM and NAND chips is booming, and I can find no evidence of excess capacity coming online, either from existing players or new competitors. Hence, I added to this position in late January and mid-February at prices below today's .

The T2 Accredited Fund, LP (dba the Kase Fund) (the "Fund") commenced operations on January 1, 1999. The Fund's investment objective is to achieve long-term after-tax capital appreciation commensurate with moderate risk, primarily by investing with a long-term perspective in a concentrated portfolio of U.S. stocks. In carrying out the Partnership's investment objective, the Investment Manager, T2 Partners Management, LP (dba Kase Capital Management), seeks to buy stocks at a steep discount to intrinsic value such that there is low risk of capital loss and significant upside potential. The primary focus of the Investment Manager is on the long-term fortunes of the companies in the Partnership's portfolio or which are otherwise followed by the Investment Manager, relative to the prices of their stocks.

There is no assurance that any securities discussed herein will remain in Fund's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. The material presented is compiled from sources believed to be reliable and honest, but accuracy cannot be guaranteed.

It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. All recommendations within the preceding 12 months or applicable period are available upon request. Past results are no guarantee of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Performance results shown are for the Kase Fund and are presented net of all fees, including management and incentive fees, brokerage commissions, administrative expenses, and other operating expenses of the Fund. Net performance includes the reinvestment of all dividends, interest, and capital gains.

The fee schedule for the Investment Manager includes a 1.5% annual management fee and a 20% incentive fee allocation. For periods prior to June 1, 2004 and after July 1, 2012, the Investment Manager's fee schedule included a 1% annual management fee and a 20% incentive fee allocation. In practice, the incentive fee is "earned" on an annual, not monthly, basis or upon a withdrawal from the Fund. Because some investors may have different fee arrangements and depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

The return of the S&P 500 and other indices are included in the presentation. The volatility of these indices may be materially different from the volatility in the Fund. In addition, the Fund's holdings differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognized indices. You cannot invest directly in these indices.

This document is confidential and may not be distributed without the consent of the Investment Manager and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.